

18  
NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

XTO REV PROD 88 (7-69) PAID UP (04/17/07)B

## OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 1st day of May, 2008, between  
Joe Chan and Grace S. Lam

whose address is: 2805 Sarah Dr, Pantego Tx 76013-4704, Lessor (whether one or more),  
whose address is: 810 Houston St., Fort Worth, Texas 76102, Lessee, WITNESSETH:

1. Lessor, in consideration of ten dollars and other valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, sulphur and all other minerals (whether or not similar to those mentioned), together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in Lessee's operations in exploring, drilling for, producing, treating, storing and transporting minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land," is located in the County of Tarrant, State of Texas, and is described as follows:

See Exhibit "A" attached hereto and made a part hereof for legal description.

See Addendum attached hereto and made a part hereof.

This lease also covers and includes, in addition to that above described, all land, if any, contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by Lessor by limitation, prescription, possession, reversion, after-acquired title or unrecorded instrument or (b) as to which Lessor has a preference right of acquisition. Lessor agrees to execute any supplemental instrument requested by Lessee for a more complete or accurate description of said land. For the purpose of determining the amount of any bonus or other payment hereunder, said land shall be deemed to contain 0.45950 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of 3 years from the date hereof, hereinafter called "primary term," and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, Lessee covenants and agrees: (a) To deliver to the credit of Lessor, in the pipe line to which Lessee may connect its wells, the equal 25.00% part of all oil produced and saved by Lessee from said land, or from time to time, at the option of Lessee, to pay Lessor the average posted market price of such 25.00% part of such oil at the wells as of the day it is run to the pipe line or storage tanks, Lessor's interest, in either case, to bear 25.00% of the cost of treating oil to render it marketable pipe line oil; (b) To pay Lessor on gas and casinghead gas produced from said land (1) when sold by Lessee, 25.00% of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of 25.00% of such gas and casinghead gas; (c) To pay Lessor on all other minerals mined and marketed or utilized by Lessee from said land, one-tenth either in kind or value at the well or mine at Lessee's election, except that on sulphur mined and marketed the royalty shall be one dollar (\$1.00) per long ton. If, at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to Lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, Lessee shall pay or tender, by check or draft of Lessee, as royalty, a sum equal to one dollar (\$1.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in such bank as directed by Lessor, or its successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same. Lessee may, in lieu of any other method of payment herein provided, pay or tender such shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as Lessee may elect. Any payment hereunder may be made by check or draft of Lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last date for payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are permitted or required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size permitted or required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Such unit shall become effective as of the date provided for in said instrument or instruments but if said instrument or instruments make no such provision, then such unit shall become effective on the date such instrument or instruments are so filed of record. Each of said options may be exercised by Lessee at any time and from time to time while this lease is in force, and whether before or after operations or production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of Lessee to release as provided in paragraph 5 hereof, except that Lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force Lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time there is no unitized minerals being produced from such unit. Any unit formed may be amended, re-formed, reduced or enlarged by Lessee at its election at any time and from time to time after the original forming thereof by filing an appropriate instrument of record in the public office in which the pooled acreage is located. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations, as to the released acreage or interest.

6. Whenever used in this lease the word "operations" shall mean operations for and/or any of the following: preparing the drillsite location or access road, drilling, testing, completing, reworking, recompleting, deepening, sidetracking, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil, gas, sulphur or other minerals, excavating a mine, production of oil, gas, sulphur or other mineral, whether or not in paying quantities.

7. Lessee shall have the use, free from royalty, of water, other than from Lessor's water wells, and of oil and gas produced from said land in all operations hereunder. Lessee shall have the right at any time to remove all machinery and fixtures placed on said land, including the right to draw and remove casing. No well shall be drilled nearer than 200 feet to the house or barn now on said land without the consent of the Lessor. Lessee shall pay for damages caused by its operations to growing crops and timber on said land.

8. The rights and estate of any party hereto may be assigned from time to time in whole or in part and as to any mineral or horizon. All of the covenants, obligations, and considerations of this lease shall extend to and be binding upon the parties hereto, their heirs, successors, assigns, and successive assigns. No change or division in the ownership of said land, royalties, or other moneys, or any part thereof, howsoever effected, shall increase the obligations or diminish the rights of Lessee, including, but not limited to, the location and drilling of wells and the measurement of production. Notwithstanding any other actual or constructive knowledge or notice thereof of or to Lessee, its successors or assigns, no change or division in the ownership of said land or of the royalties, or other moneys, or the right to receive the same, howsoever effected, shall be binding upon the then record owner of this lease until sixty (60) days after there has been furnished to such record owner at his or its principal place of business by Lessor or Lessor's heirs, successors, or assigns, notice of such change or division, supported by either originals or duly certified copies of the instruments which have been properly filed for record and which evidence such change or division, and of such court records and proceedings, transcripts, or other documents as shall be necessary in the opinion of such record owner to establish the validity of such change or division. If any such change in ownership occurs by reason of the death of the owner, Lessee may, nevertheless pay or tender such royalties, or other moneys, or part thereof, to the credit of the decedent in a depository bank provided for above.

9. In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by Lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operations on the acreage so retained and shall not be required to move or remove any existing surface facilities necessary or convenient for current operations.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor's rights and interests hereunder shall be charged primarily with any mortgages, taxes or other liens, or interest and other charges on said land, but Lessor agrees that Lessee shall have the right at any time to pay or reduce same for Lessor, either before or after maturity, and be subrogated to the rights of the holder thereof and to deduct amounts so paid from royalties or other payments payable or which may become payable to Lessor and/or assigns under this lease. If this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties and other moneys accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. This lease shall be binding upon each party who executes it without regard to whether it is executed by all those named herein as Lessor.

11. If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and Lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of Lessee, the primary term hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

12. Lessor agrees that this lease covers and includes any and all of Lessor's rights in and to any existing well(s) and/or wellbore(s) on said land, other than existing water wells, and for all purposes of this lease the re-entry and use by Lessee of any existing well and/or wellbore shall be deemed the same as the drilling of a new well.

13. Notwithstanding anything to the contrary contained in this lease, at the option of Lessee, which may be exercised by Lessee giving notice to Lessor, a well which has been drilled and Lessee intends to frac shall be deemed a well capable of producing in paying quantities and the date such well is shut-in shall be when the drilling operations are completed.

14. As a result of land development in the vicinity of said land, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on said land or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of said land or off of lands with which said land are pooled in accordance with this lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under said land or lands pooled therewith, shall for purposes of this lease be deemed operations conducted on said land. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this lease, except as expressly stated.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

LESSOR(S)

Joe Chan

Grace S. Lam

Edwin S. Ryan Jr.

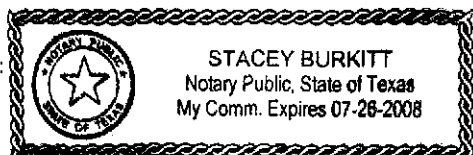
Senior Vice President- Land Administration

STATE OF TEXAS }  
COUNTY OF TARRANT } ss.

(ACKNOWLEDGMENT FOR INDIVIDUAL)

This instrument was acknowledged before me on the 1st day of May, 2008 by  
Joe Chan and Grace S. Lam

Seal:



Signature

Stacey Burkitt  
Notary Public

My commission expires:

Printed

7/26/08  
Stacey Burkitt

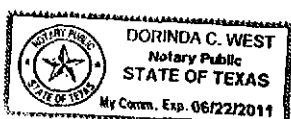
STATE OF TEXAS }  
COUNTY OF TARRANT } ss.

(ACKNOWLEDGMENT FOR COMPANY)

This instrument was acknowledged before me on the 22nd day of May, 2008  
by \_\_\_\_\_ on behalf of the corporation.

Edwin S. Ryan, Jr.  
Senior VP- Land Administration

Seal:



Signature

Dorinda C. West  
Notary Public

My commission expires:

Printed

06-22-2011  
DORINDA C. WEST

## **EXHIBIT "A"**

Attached to and made a part of that certain Oil and Gas Lease dated May 19, 2008, by and between Joe Chan and Grace S. Lam, as Lessor(s), and XTO Energy Inc., as Lessee, to-wit:

0.4595 acres, more or less, out of the J.C. Roy Survey, A-1334, being more particularly described Lot 12, of Heritage Gardens Addition, an Addition to the City of Dalworthington Gardens, Tarrant County, Texas, according to the Plat thereof recorded in Cabinet A, Pages 4232 and 4233, Plat Records, Tarrant County, Texas, including all streets, alleyways, easements, rights-of-way and common areas lying within the subdivision or abutting property.

## ADDENDUM

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL, GAS AND MINERAL LEASE DATED May 1st, 2008, BETWEEN JOE CHAN AND GRACE S. LAM AS LESSOR, AND XTO ENERGY INC., AS LESSEE, COVERING 0.4595 ACRES OF LAND, MORE OR LESS, OUT OF THE J.C. ROY SURVEY, A-1334, IN TARRANT COUNTY, TEXAS.

THE PROVISIONS OF ADDENDUM SUPERSEDE COMPLETELY ANY PROVISIONS TO THE CONTRARY CONTAINED IN THE LEASE TO WHICH THIS ADDENDUM IS ATTACHED.

**15. Minerals Covered.** Notwithstanding any other provision hereof, this lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons and their constituent elements produced through a well bore.

**16. Gas Royalty.**

(a) For all sales of gas from the leased premises, including casinghead gas or other gaseous substances produced and saved from the leased premises and sold on or off the leased premises, the royalties payable to Lessor shall be twenty-five percent (25%) of the proceeds received by Lessee from the purchaser, less the deductions authorized in subparagraph 16.(d) below; provided, however the value of Lessor's royalty gas shall never be less than the market value as determined through the use of market value index prices for the month of production as set forth in Published Indices. For purposes of this lease, "Published Indices" must be industry recognized published price references, unaffiliated with Lessee, which reflect the market value for natural gas produced in Tarrant County, Texas. If no indices are published for gas produced in Tarrant County, then indices for Johnson County, Texas shall be used, if available. If no Published Indices list prices for gas produced in Tarrant or Johnson Counties, Texas then the index price shall be the price published during each month by Inside F.E.R.C.'s Gas Market Report, or its successors, for the Houston Ship Channel, less \$0.10 as an appropriate deduction for the cost of transmission of the gas through common carrier transmission lines from the field to the Houston Ship Channel. If for any reason such publication, or its successors, ceases to publish such pipeline index price, then the index price shall be the price published during each month by Natural Gas Week, its successors, for the Houston Ship Channel. If both Inside F.E.R.C.'s Gas Market Report and Natural Gas Week, and their successors, cease to publish such price, then the parties shall use the published price given by a publication most nearly comparable to the price indicated previously published by Inside F.E.R.C.'s Gas Market Report or Natural Gas Week.

(b) Upon request, Lessee shall make available to Lessor in a timely manner a summary of any gas contract entered into between Lessee and any party covering any gas sold from the leased premises. Lessee shall not enter into a gas purchase contract having a term of more than two (2) years without the written consent of the Lessor which consent shall not be unreasonably withheld.

(c) Lessor's gas royalty shall include Lessor's fractional royalty share of all condensate, distillate and natural gasoline and all other liquefiable hydrocarbons extracted by or for Lessee from gas produced from the lease premises, as well as any "take or pay" or similar payments made to Lessee for the termination or modification of any contract for the sale of gas from the leased premises. Royalty will be payable on oil and gas produced from the leased premises and consumed by Lessee on the leased premises for compression, dehydration, fuel, or any other use.

(d) Except as permitted in this subparagraph, all royalties accruing under the lease shall be without deduction for the cost of production, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil and gas produced hereunder ready for sale or use, all of which expenses shall be added back to determine the "market value" of oil, gas or any proceeds received by the Lessee for any produced substances, for the purpose of paying royalty hereunder. If natural gas is transported by Lessee outside Tarrant County, Texas in order to collect a gas price greater than the market price in Tarrant County, Texas produced from the leased premises, Lessor's royalty will bear its proportionate share of costs and expenses associated therewith (including any third party charges passed through an affiliate of Lessee), which Lessor's proportionate share of such deductions shall never exceed \$0.30 per mcf. It is the intent of the parties that the foregoing provisions of this subparagraph 16.(d) are to be fully enforceable and effective and are not to be

construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (1997). Lessor's royalty will bear its share of all severance and production taxes. As used in this lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(e) Lessee represents that it and its affiliates, if any, will diligently pursue all of the necessary work, actions and legal requirements necessary to facilitate and accomplish the delivery, transportation and marketing of oil and gas produced from the leased premises or lands pooled therewith.

(f) Gas produced from the Land or pooled unit that the Land is included therewith shall not be commingled with gas produced from any other lands prior to the point where gas produced from this Lease passes through the meter which will measure the gas for calculating the payment made by the purchaser of gas production.

**17. Oil Royalty.** On oil, twenty-five percent (25%) of that oil produced and saved from the leased premises shall be delivered to Lessor free of cost at the wells or to the credit of Lessor into the pipeline to which the wells may be connected; provided, however, unless Lessor has made arrangements to market its royalty oil at its sole risk and expense, Lessee shall purchase any royalty oil in its possession, paying the market value therefore prevailing for the field where produced on the date of purchase, in no event less than the price received by Lessee for the sale of its oil. The market price for oil and other liquid hydrocarbons shall include all premiums or bonuses in addition to "posted prices" received by Lessee, or any affiliate of Lessee, upon the sale thereof. The only deductions allowed from the proceeds of oil sales shall be those authorized in subparagraph 16.(d).

**18. Royalty Payments.** Unless there is a reasonable title dispute or question as to title, initial royalty payments shall be due within one hundred twenty (120) days after the end of the month in which first sales were made. All subsequent royalty payments shall be due with sixty (60) days after the end of the month in which the production occurred. Should Lessee fail to pay such royalty within such time, then Lessee shall pay to Lessor interest on said accrued royalties at the rate of the lesser of the maximum rate permitted by law or the average prime interest rate charged by the two largest banks in Tarrant County, Texas, plus two percent (2%), from the due date until the date of payment even in those situations while Lessee is awaiting date or information to be supplied by the Lessor. The rights of Lessor under this paragraph shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under V.T.C.A. National Resources Code § 91.401 through 91.405.

**19. Offset Well.** This offset obligation shall go into effect one (1) year after the effective date of this lease and shall not apply to any well drilled prior to the effective date of this lease. In the event a well (an "offsetting well") producing oil or gas in paying quantities is completed on land within 330 feet from any boundary (excluding corners) of the leased premises and has penetrated and been perforated and fraced in the Barnett Shale with a minimum of 500 feet of lateral wellbore all being within said 330 feet, Lessee must, within one-hundred eighty (180) days after the offsetting well continuously produces in paying quantities for 90 consecutive or more days, commence operations for the drilling of an offset well on the leased premises or lands pooled therewith and must diligently pursue those operations to the horizon in which the offsetting well is producing, or at the option of Lessee: (i) execute and deliver to Lessor a release in recordable form of the forty (40) acres nearest to the offsetting well as to the formation in which the offsetting well is producing; or (ii) pay Lessor on a monthly basis a compensatory overriding royalty interest of the equivalent of a two percent (2%) overriding royalty interest in the offsetting well. The compensatory overriding royalty interest shall be paid by taking the monthly production volumes as reported from the offsetting well and multiplying those volumes by the current proceeds received by Lessee for production from the leased premises or in the vicinity of the lease if Lessee has no production on the leased premises, less current post production costs incurred by Lessee for production from the leased premises or in the vicinity. The compensatory overriding royalty shall terminate upon completion of drilling operations (release of rig) by Lessee of an offset well. Lessee's obligation to drill, release or pay the compensatory overriding royalty interest shall not apply if the 40 acres nearest the offsetting well as to the formation in which the offsetting well is producing is already included within a pooled unit, proration unit or retained tract as provided for or formed in

accordance with this lease or as approved by Lessor. Lessor and Lessee agree that this offset provision shall supersede and replace any implied obligations of Lessee to protect against drainage during the primary term of this lease and after the primary term (if perpetuated), whether or not Lessee is the operator or an interest owner as to any offsetting well.

**20. Pooling.** Lessee shall have the right to pool the Land with other acreage to form pooled units for the production of gas. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit and delivers a copy of the document to Lessor. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of gas from the Land. The provisions of this Lease that provide for termination of the Lease insofar as the Lease covers depths below producing formations will apply to the Land in the unit. There shall be allocated to the Land included in the unit that prorated portion of the gas produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. A pooled unit shall not exceed 640 acres plus a maximum tolerance of 10%. In the event Lessee exercises its pooling rights in accordance to this provision, Lessee shall pool all of the leased premises in a pooled unit. Royalties shall be computed on the portion of production allocated to the Land.

**21. No Surface Operations.** It is hereby agreed and understood that there shall be no drilling activities on the surface of the leased premises without the prior written permission from the surface owner of the applicable portion of the leased premises. Notwithstanding the foregoing, this waiver of surface shall not be construed as a waiver of the rights of Lessee to utilize the subsurface of the leased premises under this lease, and Lessee shall have the right to exploit, explore for, develop and produce oil, gas and other covered minerals under this lease from wells from surface locations off the leased premises, including, but not limited to, directional or horizontal drilling activity which comes under the surface of the leased premises. This drilling surface waiver does not apply to any surface rights associated with instruments other than this lease. Furthermore, Lessee is hereby prohibited from using any surface or subsurface water source attributed to the leased premises. Lessee shall comply with all rules, restrictions, and limitations, including but not limited to setback distances, provided for in the City of Dalworthington Gardens Drilling Ordinance.

**22. No Warranties.** Lessor makes no warranty of any kind with respect to title to the Land. By acceptance of this Lease, Lessee acknowledges that it has been given every opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land, and Lessee assumes all risk of title failures. All warranties that might arise by common law or by statute, including but not limited to Section 5.023 of the Texas Property Code (or its successors), are excluded. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties (including shut-in royalties) payable hereunder will be reduced proportionately. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Lessor will use all its reasonable efforts to assist Lessee to subordinate any rights of a mortgage holder to perfect the Lessee's rights under this lease; provided, however, any necessary subordination shall be obtained by Lessee at Lessee's sole expense. In the event Lessee is unable to obtain a subordination agreement, Lessee, at its option, may discharge any tax, mortgage, or other lien or interest and other charges on the Land superior to this Lease, and in the event Lessee does so, Lessee will have the option of applying the royalties accruing to Lessor toward payment of same and Lessee shall be subrogated to the rights of the holder thereof.

**23. Noise.** Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall comply with the City of Dalworthington Gardens, or other applicable ordinances.

**24. Subsurface Right-of-Way and Easement.** Lessor does hereby grant, transfer and convey unto Lessee a subsurface right-of-way and easement to drill and operate under the surface of and through the subsurface of the leased premises, one or more directional wells to be bottomed on lands other than the leased premises, for the purpose of exploring, drilling mining and operating for, developing and producing oil, gas and associated hydrocarbons under the terms of any oil and gas leases or other mineral estates now owned or hereafter acquired by Lessee, covering lands other than the lands covered by this lease and not pooled herein. Provided however, that Lessee shall not use the right-of-way and easement granted above until all of the leased premises have been included in a pooled unit on which a well has been drilled into the Barnett Shale formation and established production. This subsurface right-of-way and



easement shall remain in full force and effect during the primary term hereof and as long thereafter as used for the purposes herein granted, and the force and effectiveness of this subsurface right-of-way and easement shall not be affected by any release of this Oil, Gas and Mineral Lease unless such release expressly releases and terminates the subsurface right-of-way and easement by explicit reference to it.

**25. Option to Extend.** Lessee is hereby given the option to extend the primary term of this lease for an additional two (2) years from the expiration of the original primary term hereof. This option may be exercised by Lessee at any time during the original primary term by paying the sum of \$22,100.00 per acre to Lessor. This payment shall be based upon the number of net mineral acres then covered by this lease and not at such time being maintained by other provisions hereof. This payment may be made by the check or draft of Lessee mailed or delivered to Lessor. If, at the time this payment is made, various parties are entitled to specific amounts according to Lessee's records; this payment may be divided between said parties and paid in the same proportion. Should this option be exercised as herein provided, it shall be considered for all purposes as though this lease originally provided for a primary term of five (5) years.

**26. Release, Depth Severance and Vertical Pugh Clause.** In the event a portion of the land herein leased is pooled or unitized with other land so as to form a pooled unit or units, operations and/or production from such unit or units will maintain this lease in force beyond the primary term only as to the land included in such unit or units. This lease, as to the land not included in such unit or units, may only be maintained in force and effect beyond the primary term by any of the applicable term and conditions stated herein including but not limited to the payment of shut-in royalties, or by drilling or reworking operations on such acreage or production therefrom, in accordance with the terms and provisions of this lease. Upon the expiration of the primary term of this lease or upon the expiration of any extension or renewal of the primary term, which occurs last, this lease shall be terminated as to all rights lying below one hundred (100) feet either (i) the deepest depth drilled in any well drilled on the leased premises or on lands pooled therewith, or (ii) the stratigraphic equivalent of the base of the deepest formation producing in any well drilled on the leased premises or on lands pooled therewith, whichever is the deepest; provided, however, if Lessee is then engaged in operations on leased premises or on lands pooled therewith, this lease shall remain in full force and effect as to all depths so long as no more than ninety (90) days elapse between operations.

**27. Audit.** Lessor shall have the right to audit, exercisable not more than once during any 12-month period, the accounts and records of Lessee, its successors and assigns, relating to the leased premises and to its operations under this lease insofar and only insofar as it specifically relates to the calculation of royalties, however, such audit rights shall not extend to any periods which are twenty-four months (24) prior to the date of such audit notice. Such right shall be exercised by Lessor by giving Lessee not less than thirty (30) business days prior notice and such audit shall be conducted only during normal business hours. Lessor shall bear all costs of any such audit.

**28. Attorney's Fees.** In the event that Lessor or Lessee is required to employ legal counsel for the enforcement of any provision of this Lease, or to defend allegations of breach thereof, and prevails, the prevailing party will be entitled to recover from the other party the reasonable attorney's fees and expenses incurred by said party.

**29. Insurance.** At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its activities and operations hereunder, including any work performed on its behalf by contractors, subcontractors, and others. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000.00.

**30. Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, EMPLOYEES, TRUSTEES, VOLUNTEERS, AGENTS, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S ACTIVITIES AND OPERATIONS ON THE LAND OR LANDS POOLED THEREWITH OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND, OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS

PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. AS USED IN THIS PARAGRAPH, THE TERM "LAND" INCLUDES THE LAND COVERED BY THIS LEASE OR ANY LANDS POOLED THEREWITH. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

**31. Mother Hubbard Clause.** This Lease also covers and includes all streets, alleys, highways, bodies of water, rights-of-way or other small strips of land owned or claimed by Lessor adjacent or contiguous to the leased premises, whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the land particularly described above.

Executed on the date first written above.

Lessor:

Joe Chan

Grace S. Lam

Lessee:

XTO Energy Inc.

By:

*Edwin S. Ryan, Jr.*

Edwin S. Ryan, Jr.

Senior Vice President - Land Administration

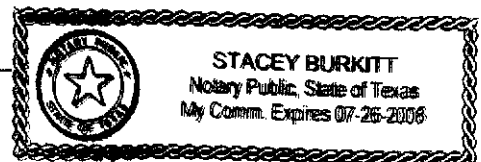
### ACKNOWLEDGEMENTS

STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on May 1, 2008, 2008, by Joe Chan and Grace S. Lam.

*Stacey Burkitt*  
Notary Public, State of Texas

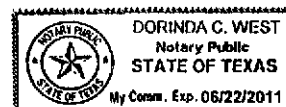


STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me this 22<sup>nd</sup> day of May, 2008, by Edwin S. Ryan, Jr., Senior Vice President - Land Administration of XTO Energy Inc., a Delaware corporation, on behalf of said corporation.

*Dorinda C. West*  
Notary Public, State of Texas



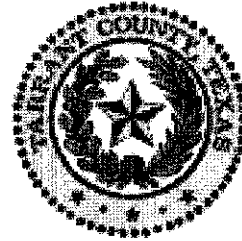
Lessors: *J.C. G.L.*

AFTER RECORDING RETURN TO:

Lessee: *SL*

PERMIAN LAND COMPANY  
P.O. BOX 1226  
FORT WORTH, TEXAS 76101





PERMIAN LAND COMPANY  
P O BOX 1226

FT WORTH TX 76101

Submitter: PERMIAN LAND COMPANY

---

SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 06/05/2008 10:55 AM  
Instrument #: D208212148  
LSE 9 PGS \$44.00

By: \_\_\_\_\_



**D208212148**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

Printed by: MC